



ANNUAL REPORT

1972

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NATIONAL SEA PRODUCTS LIMITED

W. O. MORROW
PRESIDENT



NATIONAL SEA PRODUCTS LIMITED
SUITE 1400, SCOTIA SQUARE, HALIFAX, NOVA SCOTIA

NATIONAL SEA PRODUCTS LIMITED

ANNUAL REPORT /1972

COMPARATIVE HIGHLIGHTS

	<u>1972</u>	<u>1971</u>
Sales and other Revenue	\$69,319,015	\$63,362,805
Net Income	\$ 1,803,660	\$ 1,678,185
Earnings per average number of		
Common Shares outstanding	\$ 1.13	\$ 1.19
Dividends paid per Common Share	44¢	42¢
Cash Flow	\$ 4,848,280	\$ 4,129,287
Cash Flow per Common Share	\$ 3.17	\$ 3.04
Working Capital	\$ 7,961,663	\$10,512,885
Ratio of Current Assets to		
Current Liabilities	1.45	1.70
Fixed Assets, net of depreciation	\$25,504,204	\$19,899,153
Common Shareholders' Equity	\$17,210,658	\$16,108,338

Valuation Day Price (December 22, 1971)

Common Shares	\$9.50
Preference Shares (5½%)	\$3.25



LAKE SUPERIOR

ONTARIO

QUEBEC

ST. LAW

LAKE MICHIGAN

LAKE HURON

Montreal

Toronto

LAKE ONTARIO

LAKE ERIE

A

Rockland

U.S.A.

Tampa



Your Company is engaged in the procurement and processing of all major species in the North Atlantic. These species include groundfish, herring, mackerel, lobster, scallops, shrimp and crab. In addition, we also operate a shrimp plant in Tampa, Fla.

This map shows the very extensive and wide-spread major operations of your Company. Smaller scale production activities are carried out at a number of locations not shown on the map.

Products from our plants are widely distributed throughout the North American continent and in International Markets as far distant as Australia.

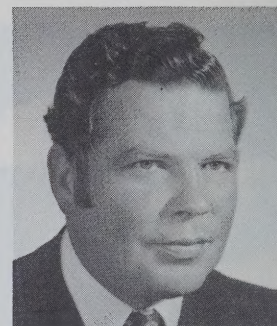
Our major Brand — High Liner — and our other well known brands of fish and seafood products are prominently displayed wherever seafood products are sold.

NATIONAL SEA PRODUCTS LIMITED

HEAD OFFICE — DUKE STREET TOWER
SCOTIA SQUARE
HALIFAX, NOVA SCOTIA



*H. P. Connor



*W. O. Morrow

BOARD OF DIRECTORS

*H. P. CONNOR, Halifax
FRANK M. COVERT, Q.C., Halifax
A. CUNNINGHAM, Halifax
*J. B. ESTEY, Halifax
*C. R. MACFADDEN, Halifax
C. J. MORROW, Lunenburg
*J. B. MORROW, Lunenburg
*W. O. MORROW, Halifax
H. D. PYKE, Lunenburg
The Hon. H. J. ROBICHAUD, Fredericton
DAVID W. SMITH, South Carolina
P. J. SMITH, Annapolis Royal
R. G. SMITH, Halifax
W. W. SMITH, Lunenburg

*Member of the Executive Committee

OFFICERS

H. P. CONNOR	Chairman of the Board Chairman of Executive Committee
W. O. MORROW	President and Chief Executive Officer
J. B. ESTEY	Executive Vice President
A. CUNNINGHAM	Vice President, By Products
C. R. MACFADDEN	Vice President, Finance Secretary and Treasurer
J. B. MORROW	Vice President, Production
I. H. LANGLANDS	Vice President, Development
P. R. SMITH	Vice President, Marketing
M. L. PITMAN	Comptroller and Assistant Secretary,
J. C. WENNING	Assistant Treasurer

SUBSIDIARY COMPANIES

NATIONAL SEA PRODUCTS (U.S.) CORP. LIMITED
Tampa, Florida

NATIONAL SEA PRODUCTS INCORPORATED
Rockland, Me.

NATLAKE LIMITED
Burgeo, Nfld.

McDERMAID AGENCIES LIMITED
Halifax, Nova Scotia

AUDITORS:

Clarkson, Gordon & Co.
Chartered Accountants

TRANSFER AGENTS:

Common Shares
The Montreal Trust Company

Preference Shares
The Company, Secretary's Office
P. O. Box 2130, Halifax, N.S.

BANKERS:

The Royal Bank of Canada
The Bank of Nova Scotia

REPORT OF DIRECTORS

TO THE SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to submit the Annual Report of the Company, including the Financial Statements and the Report of the Company's Auditors for the fiscal period ending August 31, 1972.

SALES

Your Company's sales and other revenue reached a new record totalling \$69,319,015, an increase of \$5,956,210, or 9.4% over 1971.

OPERATING RESULTS

Net Profit for the year of \$1,803,660 was up 7.5% over 1971's earnings of \$1,678,185. A strong fourth quarter enables us to report the second highest earnings in the Company's history.

For several years, your Company has had substantial investment in foreign companies, particularly in the United States, with plants located in Rockland, Maine and Tampa, Florida. It has been the practice to consolidate these operations into the consolidated financial statements. For the past few years, your Company has also had a substantial interest in a Bermudian operation, which in turn owns 100% of an insurance underwriting company.

On the advice of our Auditors, in order to present a more complete picture, the financial results of the Bermudian company, previously not consolidated, have now been incorporated into these financial statements on the "equity form" of accounting. This method reflects total earnings as opposed to the previous practice of reflecting only dividend income (see Note 4). Although the insurance premium income of the Bermudian company has been growing satisfactorily over the years, the reduction in your Company's investment income to \$253,634 from last year's \$572,602 was largely because the underwriting company did not enjoy the same high underwriting profits.

By-Products again made a substantial, although reduced, contribution to profits. The decrease in earnings from by-products was caused by lower herring landings at Shippegan, New Brunswick and Burgeo, Newfoundland.

Lower U.S. exchange rates again had an adverse effect on profits.

CAPITAL EXPENDITURES AND DEPRECIATION

Capital expenditures for the year, net after Government grants, were the highest in the Company's history and amounted to \$7,714,674.

Major capital expenditures included the expansion and modernization of the St. John's plant, progress payments on our six new trawlers under construction, and the installation of new equipment at other plants principally at Halifax; Louisbourg; Tampa, Florida; and Rockland, Maine.

Depreciation of fixed assets amounted to \$2,046,020, compared with \$1,871,102 last year.

FINANCIAL POSITION

During the year, we issued Subordinated Preference Shares in the amounts of \$938,934.

Additions to long term debt amounted to \$2,311,591, largely represented by mortgage loans on trawlers. After providing for current installment repayments of \$1,388,710, our total long term indebtedness amounted to \$13,142,948.

Working capital, although deemed adequate, decreased by \$2,551,222 to \$7,961,663, due largely to the \$7,714,674 spent on fixed asset additions.

Item No. 8 (b) in "Notes to Consolidated Financial Statements" refers to income taxes and is basically similar to the note that has appeared on this subject for the past two years. We have appealed our assessment to the Federal Court, and expect it to be heard in the very near future. We remain confident that we have a strong case.

EARNINGS AND DIVIDENDS

Common Share earnings after providing for Preferred Dividends were \$1.13 per share, compared with \$1.19 last year, based on the smaller average number of shares outstanding in 1971. Cash flow amounted to \$3.17 per share, compared with \$3.04 in 1971.

Semi-annual dividends on the Preference Shares were paid in January and July at the rate of 5½% per annum, and, in addition, dividends of \$5,274 were paid on the new Subordinated Preference Shares. Common Dividends of 44¢ per share were paid at the quarterly rate of 11¢.

PROFIT SHARING FUND

The Company's contribution to the Employees' Savings and Profit Sharing Retirement Fund was \$309,629, the second highest amount since the Plan commenced ten years ago. The size of the Fund is now becoming quite significant, amounting to over \$3,500,000, and will play an important part upon retirement of participating employees.

OPERATIONS

In the past year, special emphasis has been placed on controlling costs. On account of heavy capital expenditures on trawler construction and the starting of operations at St. John's, capital expenditures were kept at a minimum at other plants. Fortunately, most plants are in good physical condition and equipped with modern processing equipment. We are, however, considering replacing certain buildings and equipment at two of our older plants, which are now requiring considerable maintenance.

Our new plant at St. John's commenced operations on a small scale in May. During the summer, the volume, obtained mainly from shore fish, increased substantially. However, shore fishing falls off in the autumn months, and we become dependent on trawler production, so our plant will not reach capacity until January or February, 1973, when our full fleet of trawlers comes into operation.

TRAWLER PROGRAM

The six trawlers that were commenced last year are in the final stages of construction. We accepted delivery of the first one, CAPE FOX, in September, and she is now fishing. Her maiden trip was most successful, having landed a full trip caught in half the normal time. We will be accepting delivery of two additional trawlers during the month of November. These new trawlers are capable of fishing with both mid-water and conventional bottom trawls, and from our experience to date, it appears they are going to be most successful. The prototype,

CAPE ARGOS, on which many of the new features were developed, had a most successful year. Her landings and earnings for the past fiscal year established an all-time Company record for a single trawler. Plans are now underway to convert more of our ships to mid-water trawlers, and we expect through new fishing techniques to increase substantially our production during the coming year.

INDUSTRIAL RELATIONS

The past fiscal year has seen several of our major labour contracts renewed and three new ones signed for two-year terms without any stoppage of work. While settlements have been higher generally than in the past, they compare favourably with average increases in Canada, the United States, and our competitive local areas.

In total, nine contracts were negotiated, the earliest expiring November 30, 1973. The only two contracts to be renewed in the 1972-1973 fiscal year are those for the plant workers at Shippegan, New Brunswick in April and for the Nova Scotia trawler fishermen in July.

We are very conscious of our responsibilities in the labour management field and make every effort to keep our lines of communication open with our employees and their chosen Union representatives.

THE RESOURCE AND CONSERVATION

At the last meeting of the International Commission on Northwest Atlantic Fisheries, the sixteen participating countries unanimously agreed to a system of quotas to protect the east coast fish stocks. These quotas become effective on January 1, 1973, provided no country files an objection prior to that date.

As the most prolific fishing grounds in the world lie off the Canadian coast, our fishing industry has for some time been requesting meaningful conservation measures on the east coast, as well as preferential treatment for Canada. At the meeting, the principle used in determining quotas gave preferential treatment to the coastal state, in this case Canada, as well as limiting new entries in the fishery.

We feel Canada has fared well in the first attempt to establish quotas and is the only

country amongst all of the participating nations in a position to expand its fishing effort.

Furthermore, Canada has been awarded larger quotas in areas where traditionally we have only taken a small amount of fish. We believe that there is a real opportunity as well as a challenge in developing a larger fishery in this area. It will probably involve larger trawlers which have the ability to freeze fish aboard as they come from the sea. Your Company is currently undertaking studies in both new trawler designs so as to conduct this type of fishing and methods of processing the frozen fish at our plants after it is landed.

The fact that sixteen nations have agreed to a system of quotas is extremely gratifying. Lack of management or poor management of the resources would almost certainly present long term problems and an uneconomic industry. We feel that eventually one nation will have to assume the role of sole manager in the interest of all the fishing nations. In the case of the Northwest Atlantic, Canada would have the strongest claim to this responsibility and is seeking it vigorously.

A great deal is written these days concerning the fishing industry and particularly with reference to the supply. We are confident that the industry, with proper conservation and management, will continue to be successful.

CORPORATE WELFARE BUMS

Many corporations, including your Company, have recently been most wrongfully subjected to a massive campaign of charges that they are "corporate welfare bums". It is the duty, we believe, of such companies to refute to the Canadian people such misleading and generally inaccurate charges.

In the interests of equalizing regional economic opportunity in Canada, the Government has adopted a policy of providing certain financial incentives to companies to expand their operations, strengthen their ability to compete in world markets, produce new products and create new jobs for Canadians.

The Company, for instance, has had Federal grants approved of \$4,049,864, providing it invested an additional \$13,911,384 in plants and trawlers and created jobs at Ship-pegan, Summerside, Halifax, Louisbourg, St.

John's and Burgeo. The same sort of pattern has been the case in a great many industries in Canada. The Oxford Dictionary defines "bum" as a "loafer; a ne'er do well; to sponge off others". Could any inference be more inappropriate or unfair? The facts of the case speak for themselves.

We wish also to refute the charges that "Deferred Taxes" are a handout to corporations and the inference that in some way they are an exemption of Income Taxes. The fact is, of course, that they are what they are called — "Deferred Taxes"; that is, taxes which are paid, but in full measure at a future date. This deferment, however, does enable companies to expand and create jobs more quickly than otherwise, and carry out the express purpose of Government policy.

These incentive grants and deferred taxes enabled your Company to expand its operations and will create an additional 1,076 jobs in the Atlantic area.

We are confident that in the years ahead the grants will be more than repaid both in taxes and in the enhancement of the economy of the areas concerned.

FUTURE OUTLOOK

The outlook is for continuing profitability in the year before us. Our new trawlers will substantially increase our production; the St. John's plant should start making a contribution to profits later in the year; markets are strong; and although the year ahead will not be without its problems, we are looking for record sales and improved profits.

Your Company wishes to express its thanks to all the many fishermen who supply our plants, as well as all of our employees who play such an important part in the continuing prosperity and growth of the Company. We also appreciate the interest and support of our growing number of shareholders.

On behalf of the Board of Directors,



W. O. Morrow
President

Halifax, N.S.
November 6, 1972

NATIONAL SEA PRODUCTS

(Incorporated under the laws of the State of New York)

and its subsidiaries

Consolidated

August 31, 1972

ASSETS

	<u>1972</u>	<u>1971</u>
Current:		
Cash	\$ 367,347	\$ 152,179
Accounts receivable — trade	7,625,250	7,677,268
Accounts receivable — fishermen, government grants and other (note 2)	4,511,182	4,030,078
Income taxes refundable	121,832	—
Inventories of marketable products and supplies valued at the lower of cost and net realizable value	12,343,816	13,061,422
Prepaid expenses	<u>571,171</u>	<u>542,491</u>
Total current assets	<u>25,540,598</u>	<u>25,463,438</u>
 Fixed (note 3)	 <u>25,504,204</u>	 <u>19,899,153</u>
 Other:		
Investments in trawler companies	377,351	417,350
Investments in shares (note 4)	2,606,123	1,759,795
Sundry investments, government grants receivable and goodwill (note 5)	<u>750,434</u>	<u>647,857</u>
	<u>3,733,908</u>	<u>2,825,002</u>
	<u>\$54,778,710</u>	<u>\$48,187,593</u>

On behalf of the Board:

H. P. Connor, Director

W. O. Morrow, Director

See accompanying notes

PRODUCTS LIMITED

(In the Province of Nova Scotia)

by companies

Balance Sheet

1972

LIABILITIES AND SHAREHOLDERS' EQUITY

	<u>1972</u>	<u>1971</u>
Current:		
Bank indebtedness	\$ 9,491,502	\$ 8,382,358
Notes payable	924,953	424,953
Accounts payable and accrued charges	5,773,770	4,891,013
Instalments on long-term debt due within one year	<u>1,388,710</u>	<u>1,252,229</u>
Total current liabilities	<u>17,578,935</u>	<u>14,950,553</u>
Long-term debt (notes 6 and 7)	<u>13,142,948</u>	<u>12,220,067</u>
Deferred income taxes (note 8)	<u>3,977,860</u>	<u>2,979,260</u>
Shareholders' equity (note 7):		
Capital —		
385,875 Class C preference shares	1,929,375	1,929,375
938,934 Subordinated preference shares	938,934	—
1,493,293 Class A common shares	<u>4,812,201</u>	<u>4,812,201</u>
	7,680,510	6,741,576
Contributed surplus	1,137,730	1,070,631
Retained earnings (note 8)	<u>11,260,727</u>	<u>10,225,506</u>
Total shareholders' equity	<u>20,078,967</u>	<u>18,037,713</u>
	<u>\$54,778,710</u>	<u>\$48,187,593</u>

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Statements of Consolidated Income and Retained Earnings

for the year ended August 31, 1972

		1972	1971
STATEMENT OF INCOME	Net sales	\$69,319,015	\$63,362,805
	Cost of sales	<u>56,099,167</u>	<u>51,411,876</u>
		13,219,848	11,950,929
	Selling, general and administrative expenses	<u>7,611,893</u>	<u>7,223,791</u>
	Income from operations before the following	5,607,955	4,727,138
	Add:		
	Investment income (note 4)	<u>253,634</u>	<u>572,602</u>
		<u>5,861,589</u>	<u>5,299,740</u>
	Deduct:		
	Interest on long-term debt	719,280	766,210
	Contribution to Employees' Savings and Profit Sharing Retirement Fund	309,629	266,243
	Provision for depreciation (note 3)	<u>2,046,020</u>	<u>1,871,102</u>
		<u>3,074,929</u>	<u>2,903,555</u>
	Income before income taxes	2,786,660	2,396,185
	Provision for income taxes (note 8)	<u>983,000</u>	<u>718,000</u>
RETAINED EARNINGS	Net income for the year (note 8)	<u>\$ 1,803,660</u>	<u>\$ 1,678,185</u>
	Earnings per common share (note 10)	<u>\$1.13</u>	<u>\$1.19</u>
	Fully diluted earnings per common share assuming conversion of debentures (note 10)	<u>\$1.08</u>	<u>\$1.12</u>
	Balance, beginning of year	\$10,225,506	\$ 9,194,705
	Add net income for the year	<u>1,803,660</u>	<u>1,678,185</u>
		<u>12,029,166</u>	<u>10,872,890</u>
	Dividends:		
	Preference	111,390	112,273
	Common	<u>657,049</u>	<u>535,111</u>
		<u>768,439</u>	<u>647,384</u>
	Balance, end of year	<u>\$11,260,727</u>	<u>\$10,225,506</u>

See accompanying notes to financial statements

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Statements of Consolidated Source and Application of Funds

for the year ended August 31, 1972

		<u>1972</u>	<u>1971</u>
SOURCE OF FUNDS	Net income for the year	\$ 1,803,660	\$ 1,678,185
	Add charges not represented by cash outlay during the year —		
	Depreciation	2,046,020	1,871,102
	Portion of tax provision applicable to future years	<u>998,600</u>	<u>580,000</u>
	Total funds provided from earnings	4,848,280	4,129,287
	Issue of subordinated preference shares	938,934	—
	Issue of common shares	—	2,083,236
	Increase in mortgages	2,311,591	2,387,243
	Federal grant	67,099	101,215
	Disposal of fixed assets	<u>117,675</u>	<u>78,043</u>
	Total funds provided	<u>8,283,579</u>	<u>8,779,024</u>
 APPLICATION OF FUNDS	 Additions to fixed assets (net of government grants, \$1,374,925; 1971, \$2,259,150)	 7,714,674	 3,739,156
	Instalments on long-term debt due within one year	1,388,710	1,252,229
	Dividends paid	768,439	647,384
	Increase in other assets	908,906	749,634
	Preference shares redeemed	—	168,500
	Other	<u>54,072</u>	<u>22,752</u>
	Total funds applied	<u>10,834,801</u>	<u>6,579,655</u>
	Resulting in a (decrease) increase in working capital during the year of	(2,551,222)	2,199,369
	Working capital, beginning of year	<u>10,512,885</u>	<u>8,313,516</u>
	Working capital, end of year	<u>\$ 7,961,663</u>	<u>\$10,512,885</u>

See accompanying notes to financial statements

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Notes to Consolidated Financial Statements

August 31, 1972

1. Basis of consolidation:

The financial statements of the company are presented in consolidation with those of all subsidiary companies.

As in previous years, current assets and liabilities in foreign currencies are converted at exchange rates applying at balance sheet dates; non-current assets, accumulated depreciation and liabilities in foreign currencies are converted at exchange rates in effect at the time of acquisition. Revenues and expenses, excepting depreciation, are converted at rates prevailing during the year.

2. Accounts receivable — fishermen, government grants and other; includes federal government grants and advances to contractors pending their receipt of government grants in the amounts of \$1,386,000 and \$788,000 respectively.

3. Fixed assets, at cost:

	1972	1971
(a) Land, buildings, wharves, machinery and other	\$25,503,144	\$24,406,196
Trawlers	14,914,020	14,148,515
	40,417,164	38,554,711
Less accumulated depreciation	21,399,292	19,903,900
	19,017,872	18,650,811
St. John's — plant and related trawlers under construction	6,486,332	1,248,342
	<u>\$25,504,204</u>	<u>\$19,899,153</u>

(b) At August 31, 1972 the St. John's plant had not commenced production in commercial quantities and costs to date have been capitalized. Commitments, less approved government grants to complete the project, amount to approximately \$7,300,000. Financing arrangements made with respect to the six trawlers under construction are such that approximately \$4,800,000 will be provided by way of ships mortgages when all the trawlers are built. In addition, financing in the amount of \$1,700,000 has been completed in respect to the plant.

(c) Depreciation of the fixed assets of the company and the majority of its subsidiaries is provided on the straight-line method at the following rates:

Brick buildings	4%
Wooden buildings and wharves	5%
Machinery and equipment	5% and 10%
Trawlers	8% for 5 years
	6% for 10 years
Other	10% to 25%

4. In 1972, National Sea Products Limited changed its method of accounting for investments in shares of companies in which it has a substantial interest. In accordance with current accounting practice, these investments are now carried at National's equity in the net assets of these companies and income is recognized on the basis of National's equity in the earnings of the companies. Previously, these investments were carried at cost and income was recognized to the extent of dividends received. The total dividend payments of these companies prior to 1971 were equal to their earnings, and in 1971 dividends equalled earnings; accordingly, this change in accounting policy does not affect the comparability of the 1972 and 1971 financial statements. The net assets include a claim receivable of approximately \$300,000 which the Directors of the subject company, supported by the advice of legal counsel, are of the opinion will be successfully sustained.

5. Goodwill arising from the acquisition of a business is recorded at cost which is being amortized at 10% per annum on a straight-line basis.

6. Long-term debt:

Secured —

First Mortgage and Collateral Trust Bonds:

5½% serial series "A" due 1973-1974	\$ 200,000
6% serial series "A" due 1975-1979	500,000
7% serial series "B" due 1973-1977	1,800,000
	<u>2,500,000</u>

Trawler mortgage loans:

5½% due semi-annually to 1974	71,253
4½% due semi-annually to 1975	9,880
5½% due semi-annually to 1978	313,636
4% due annually to 1978	131,234
5½% due semi-annually to 1979	509,902
5½% due semi-annually to 1980	204,482
6½% due semi-annually to 1983	2,513,856
9% due semi-annually to 1991	2,172,045
	<u>5,926,288</u>

Other:

6% first mortgage bonds due quarterly to 1974	45,000
3% mortgage due annually to 1976	190,909
6% mortgage due semi-annually to 1976	320,000
8½% mortgage due semi-annually to 1984	1,216,737
8% mortgage due semi-annually to 1988	1,557,500
Miscellaneous	42,917
	<u>3,373,063</u>

Unsecured —	
6¼% Convertible Subordinated Sinking Fund	
Debentures Series "A" due 1981	2,544,000
7¼% term bank loan due \$60,000 (U.S.)	
annually to 1975	188,307
	2,732,307
	14,531,658
Less instalments due within one year included in current liabilities	1,388,710
	\$13,142,948
Principal and sinking fund payments required in each of the next five years:	
1973	\$1,400,000
1974	1,550,000
1975	1,500,000
1976	1,825,000
1977	1,700,000

7. Shareholders' equity:

- (a) Common shares — each \$1,000 principal amount of 6¼% Convertible Sinking Fund Debentures Series "A" due 1981 is convertible into 57 common shares of the company up to March 15, 1976.
- (b) The Trust Deed securing the First Mortgage and Collateral Trust Bonds and the Trust Indenture under which the 6¼% Convertible Sinking Fund Debentures Series "A" are issued contain certain restrictions including, among others, restrictions as to the payment of dividends, reduction of capital and retirement of sinking fund debentures in the event of consolidated working capital (defined to exclude long-term debt due within one year), being less than \$6,000,000 or consolidated retained earnings being less than \$5,500,000.
- (c) By Special Resolution on August 31, 1972 the share capital of the company was altered by increasing the authorized common and preference shares and then creating a new class of common and preference shares which rank equally with the originally authorized shares and are inter-convertible at the holder's option on a one-for-one basis. The only distinction between the original and new classes of common and preference shares is that dividends paid on the new classes of shares may be paid out of Tax-Paid Undistributed Surplus on Hand or 1971 Capital Surplus on Hand so that an equivalent amount is received by each of the common and each of the preference shareholders.

Details of authorized share capital and the changes are as follows:

- 1971 —
 - 400,000 5½% cumulative preference shares of a par value of \$5 each, redeemable at par
 - 2,000,000 subordinated preference shares of a par value of \$1 each, redeemable at par
 - 2,000,000 common shares, no par value
- 1972 —
 - 600,000 5½% Class C cumulative redeemable convertible preference shares of a par value of \$5 each, redeemable at par
 - 400,000 5½% Class D cumulative redeemable convertible preference shares of a par value of \$5 each, redeemable at par
 - 2,000,000 subordinated redeemable preference shares of a par value of \$1 each, redeemable at par
 - 3,000,000 Class A convertible common shares, no par value
 - 3,000,000 Class B convertible common shares, no par value

- (d) During the year, 938,934 subordinated preference shares were issued for cash at an agreed dividend rate of 8½% per annum.

8. Commitments and contingencies:

- (a) Rentals aggregating approximately \$300,000 per annum are payable under long-term leases of facilities in Montreal and Lunenburg to 1993.

The company has an agreement committing it to rentals in respect to a herring reduction plant at Burgeo, Newfoundland and the payments are designed to amortize the balance of financing of \$1,200,000 by varying annual payments not exceeding \$300,000 per annum, together with varying interest costs which are currently 7½% per annum, over a period of five years.

- (b) It was noted last year that the Department of National Revenue has issued notices of reassessment for the periods from 1966 to 1969 inclusive. It continues to be the opinion of the company's professional advisors that the reassessments should be appealed and that it is not necessary to make provision in these financial statements for any additional income taxes. Accordingly, the company has filed appeals to the assessments in the Federal Court of Canada (Trial Division) and has made no provision for income taxes relative thereto. Because of the availability of capital cost allowances, \$196,840 only of additional income taxes were currently payable and these taxes have been paid and deferred income taxes have been correspondingly reduced.

If each of the various principles on which the reassessments have been based were upheld in its entirety, the effect would be to increase the provision for income taxes (principally deferred taxes) and reduce net income by approximately \$400,000 for 1972, \$400,000 for 1971, \$500,000 for 1970, \$300,000 for 1969 and \$2,100,000 for prior years. Of the aforementioned amounts, \$196,840, applicable to years prior to 1969 and paid on assessment, \$600,000 for 1971 and \$700,000 for 1972 would become currently payable. The balance of the taxes would become payable only as and when recorded depreciation exceeds capital cost allowances now available and becoming available from future capital expenditures.

- (c) Guarantees of suppliers', including fishermen's, notes and mortgages amount to approximately \$465,000.

9. Remuneration of Directors and senior officers was \$313,000 (1971 — \$298,000).

10. Earnings per share:

For purposes of calculating the figures for fully diluted earnings per share the earnings applicable to common shares were increased by the interest after income taxes (1972 — \$85,000; 1971 — \$83,000) on the 6¼% convertible debentures and the number of common shares adjusted to reflect the additional shares (1972 — 145,008; 1971 — 149,283) that would have resulted on an assumed conversion as at the beginning of the year of all debentures outstanding at the end of the year.

The number of common shares outstanding each year is calculated on the weighted monthly average, which average was 1,493,293 in 1972 and 1,319,955 in 1971.

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AUDITORS' REPORT

To the Shareholders of
National Sea Products Limited:

We have examined the consolidated balance sheet of National Sea Products Limited and its subsidiary companies as at August 31, 1972 and the statements of consolidated income, retained earnings and source and application of funds for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to successful appeal from the re-assessments of income tax described in note 8 to the consolidated financial statements, and according to the best of our information and the explanations given to us, and as shown by the books of the companies, the accompanying consolidated balance sheet and statements of consolidated income, retained earnings and source and application of funds are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at August 31, 1972, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change to the equity method of accounting as explained in note 4 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Halifax, Canada
October 20, 1972

Chartered Accountants

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Comparative Financial Information for 1968-72

(all amounts are expressed in thousands, except as indicated †)

		1972	1971	1970	1969	1968
Working Capital	\$	7,962	10,513	8,314	8,572	6,807
Plant, Equipment, Trawlers and other Fixed Assets after Depreciation	\$	25,504	19,899	18,093	17,700	16,519
Total Assets	\$	54,779	48,188	42,095	38,218	34,109
Accumulated Deferred Income Taxes	\$	3,978	2,979	2,392	1,722	857
Long Term Debt	\$	13,143	12,220	11,099	10,681	10,852
Shareholders' Equity:						
Preference Shares	\$	1,929	1,929	1,929	1,929	1,929
Second Preference Shares	\$	—	—	169	1,300	—
Subordinated Preference Shares	\$	939	—	—	—	—
Common Shares	\$	4,812	4,812	2,729	2,729	2,729
Contributed Surplus	\$	1,138	1,071	969	795	375
* Retained Earnings	\$	11,261	10,226	9,195	7,917	6,851
Total Shareholders' Equity	\$	20,079	18,038	14,991	14,671	11,884
Additions to Plant, Equipment, Trawlers and other Fixed Assets during the year	\$	7,715	3,739	2,201	2,874	3,923
Fish Landings (lbs)		196,000	192,000	186,000	197,000	207,000
Herring Purchased for Reduction (lbs)		52,000	98,000	143,000	87,000	17,000
Net Sales	\$	69,319	63,363	64,950	61,684	57,783
Depreciation	\$	2,046	1,871	1,879	1,666	1,666
Income Taxes	\$	983	718	1,012	922	300
* Net Income	\$	1,804	1,678	1,866	1,352	668
Dividends on Preference Shares	\$	111	112	194	106	106
Dividends on Common Shares	\$	657	535	395	179	191
* Earnings Retained in Business for Expansion	\$	1,035	1,031	1,278	1,066	371
* Earnings per average number of Common Shares outstanding	†	\$1.13	\$1.19	\$1.40	\$1.04	47¢
Common Dividends paid per share	†	44¢	42¢	33¢	15¢	16¢
* Earnings as a Percentage of Sales	†	2.6%	2.6%	2.9%	2.2%	1.2%
Cash Flow per average number of Com- mon Shares outstanding	†	\$3.17	\$3.04	\$3.61	\$3.22	\$1.96
Number of Common Shares Outstanding at Year End	†	1,493,293	1,493,293	1,196,143	1,196,143	1,196,143

*Does not give affect to the change made in 1972 to the equity method of accounting for investment income (See note 4 to financial statements)

